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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

October 05, 2004

Audit Number 03034

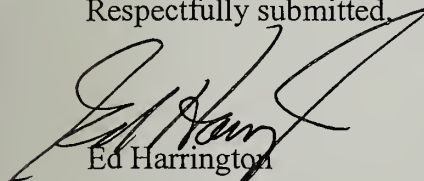
Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

President and Members:

The Office of the Controller (Controller) presents its report concerning the audit of Episcopal Community Services of San Francisco (Episcopal Community Services), and its compliance with the City and County of San Francisco (City) ordinance prohibiting the use of city funds for political activity. The San Francisco Administrative Code (Administrative Code), Section 12G, defines political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. This audit was conducted to comply with the Administrative Code requirement for the Controller to annually audit at least ten persons or entities that enter into contracts, grant agreements, or loan agreements with the City to ensure compliance with the prohibition on the use of city funds for political activity. Episcopal Community Services had a \$143,405 grant from the Department of Human Services to provide food service training to homeless and formerly homeless individuals with disabilities.

Of the \$143,404 that Episcopal Community Services received for its grant, it did not use any of the funds for political activities.

Respectfully submitted,


Ed Harrington
Controller

INTRODUCTION

BACKGROUND

On November 5, 2002, the voters of the City and County of San Francisco (City) passed Proposition Q, which prohibits persons or organizations receiving contracts, grants, or loans from the City to use any funds appropriated by the City for political activity. The San Francisco Administrative Code (Administrative Code), Section 12G, codified this proposition, defining political activity as participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure. The section also requires that all contracts, grant agreements, and loan agreements incorporate the prohibition. According to the Office of the City Attorney, persons and organizations receiving contracts, grants, and loans are not subject to Section 12G unless the prohibition is incorporated in their agreements. According to a deputy city attorney, the agreements do not typically include the prohibition until after January 2003.

Section 12G.2 of the Administrative Code requires the Office of the Controller (Controller) to annually audit at least ten persons or entities that enter into contracts, grant agreements, or loan agreements with the City to ensure compliance with the prohibition on the use of city funds for political activity. We randomly selected for audit ten persons or entities receiving city funds from January 1, 2003, through June 30, 2003, through a contract, grant, or loan that contained the prohibition to use city funds for political activity.

Episcopal Community Services of San Francisco (Episcopal Community Services) is one of the organizations we selected for review. Episcopal Community Services had a \$143,405 grant from the Department of Human Services to provide food service training to homeless and formerly homeless individuals with disabilities. According to Episcopal Community Services' director of finance, Episcopal Community Services performed services under this grant from January 1 through December 31, 2003. The Department of Human Services paid Episcopal Community Services \$143,404, or \$1 less than the grant amount.

SCOPE AND METHODOLOGY

The purpose of this audit was to determine if Episcopal Community Services inappropriately expended any city funds participating in, supporting, or attempting to influence a political campaign for any candidate or ballot measure.

To conduct the audit, we identified that Episcopal Community Services had one grant with the City from January 1, 2003, through December 31, 2003, that included the prohibition of using city funds for political activity. For this grant, we identified all payments that the City made to Episcopal Community Services, and reviewed expenses of Episcopal Community Services that it expended to earn these payments. We assessed Episcopal Community Services' procedures for recording expenditures and reviewed some of its accounts and its financial statements to verify it did not spend city funds for purposes related to political activity as defined by the City. We also inquired of Episcopal Community Services if it had made any expenditure that may be related to supporting political activity. We searched the San Francisco Campaign Finance Database and the State of California's Cal-Access, which reports campaign contributions, to find instances where Episcopal Community Services was reported as making political contributions.

AUDIT RESULTS

EPISCOPAL COMMUNITY SERVICES DID NOT USE CITY FUNDS TO PAY FOR POLITICAL ACTIVITY EXPENSES

Episcopal Community Services of San Francisco did not use any of the \$143,404 of city funds that it received to participate in, support, or attempt to influence a political campaign for any candidate or ballot measure. We did not find any evidence in its accounting records or financial reports, including Episcopal Community Services' *Return of Organization Exempt From Income Tax* (Internal Revenue Service Form 990), indicating that Episcopal Community Services incurred any expenditures for political activity. Furthermore, Episcopal Community Services informed us that it did not make such expenditures. In addition, the city and state campaign contribution databases did not show that Episcopal Community Services made any political contributions during the period we reviewed.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Ben Carlick, Audit Manager
Deborah Gordon

cc: Mayor
Board of Supervisors
Civil Grand Jury
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